

Message Text

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PAGE 01 TEHRAN 06420 031644Z

60

ACTION NEA-10

INFO OCT-01 ISO-00 FTC-01 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 /093 W

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R 031255Z JUL 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 2354

INFO AMEMBASSY ABU DHABI

AMEMBASSY BAGHDAD

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L TEHRAN 6420

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: JOINT VENTURE OIL PRODUCERS: TRUBLE BREWING

1. JOINT VENTURE OIL PRODUCERS HERE INCREASINGLY RESTIVE OWING TO UNCERTAINTY OF THEIR PRESENT AND FUTURE. SOME MONTHS AGO NIOC NOTIFIED ALL FOREIGN PARTNERS IN JOINT VENTURES THAT THEY WOULD HAVE TO BEGIN PAYING 20 PERCENT ROYALTIES AND 85 PERCENT INCOME TAXES, BASED ON 40 CENT LOWER POSTINGS, PER ABU DHABI FORMULA. ALL THESE FOREIGN COMPANIES HAVE SO FAR REFUSED TO COMPLY AND CONTINUE MAKING PAYMENTS ON BASIS 16.67 PERCENT ROYALTY, 65.75 PERCENT INCOME TAX, AND PRE ABU DHABI POSTINGS. SUN OIL REPRESENTATIVE TOLD EMBOFF THAT HIS COMPANY HAS SET ASIDE RESERVES TO COVER DIFFERENCE BETWEEN ABU DHABI FORMULA AND PAYMENTS COMPANIES ARE ACTUALLY MAKING AND THAT THESE RESERVES ARE NOW VIRTUALLY EQUAL TO SUN'S EQUITY IN LAVAN PETROLEUM CO. (LAPCO). HE HAS THEREFORE ADVISED HIS COMPANY TO WITHDRAW
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PAGE 02 TEHRAN 06420 031644Z

FROM LAPCO IF GOI ATTEMPTS TO ENFORCE ABU DHABI FORMULA.

2. AMOCO-IRAN PRESIDENT GERHARDL WAS RECENTLY CALLED BACK TO CHICAGO BY HIS COMPANY. MESSAGE HE THOUGHT HE WOULD BE INSTRUCTED TO BRING BACK TO NIOC WAS THAT AMOCO UNWILLING TO INVEST ANY MORE MONEY IN IRAN. (AMOCO CURRENTLY INVESTING SOME \$10 MILLION A MONTH IN PRODUCTION EXPANSION PROGRAM.) GERHARDT SAID THAT FOR THE MOMENT "DOVES" IN HIS COMPANY HAVE WON OUT AND AMOCO WILL NOT YET ISSUE ANY ULTIMATUMS. NEVERTHELESS, COMPANY IS "DEEPLY DISTURBED" ABOUT THREE PROBLEMS: (A) NIOC, IN VIOLATION OF JOINT VENTURE AGREEMENT, ATTEMPTED TO ORDER AMOCO TO PAY HIGHER TAXES AND ROYALTIES PER ABU DHABI FORMULA; (B) NIOC, IN VIOLATION OF JOINT VENTURE AGREEMENT, TOLD AMOCO THAT JOINT VENTURE AGREEMENT MUST BE TOTALLY RENEGOTIATED; AND (C) NIOC NEVERTHELESS REFUSES, SO FAR, TO ENTER SERIOUS DISCUSSIONS WITH FOREIGN PARTNERS ON POINTS A AND B, LEAVING THEM IN FINANCIAL AND ACCOUNTING LIMBO. ANOTHER PROBLEM IS THAT NIOC HAS BEEN HAVING INCREASING DIFFICULTY IN SELLING ITS SHARE OF JOINT VENTURE OIL AND BECAUSE OF THIS A LARGE PORTION OF FOREIGN PARTNERS' EXPORTS ARE CONSIDERED "OVERLIFTINGS" WHICH MUST BE PAID FOR IN EFFECT AT A HALFWAY PRICE. (HALFWAY BETWEEN TAX-PAID COST AND BUY-BACK PRICE.)

3. REPRESENTATIVES OF FOREIGN PARTNERS IN JOINT VENTURE COMPANIES INCREASINGLY SPEAK OF POTENTIAL "SHOWDOWN" OR CRUNCH". WE HAVE INDICATED TO THEM OUR BELIEF THAT NIOC WILL FIND IT DIFFICULT TO FOCUS ON THEIR PROBLEMS UNTIL A NEW RELATIONSHIP WITH THE CONSORTIUM MEMBERS HAS BEEN DEFINED. THEY APPEAR TO SHARE THIS OPINION, BUT IN SOME CASES, THEIR PARENT COMPANIES MAY BE UNWILLING TO WAIT.
HELMS

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